



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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**NEWS RELEASE**

FOR RELEASE June 27, 2007

Contact: Andy Nielsen  
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Auditor of State David A. Vaudt today released an audit report on the City of Menlo, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2006, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$467,533 for the year ended June 30, 2006. The receipts included \$77,676 in property and other City tax, \$25,127 from tax increment financing, \$62,138 from charges for service, \$57,091 from operating grants, contributions and restricted interest, \$21,299 from capital grants, contributions and restricted interest, \$31,683 from local option sales tax, \$2,226 from unrestricted interest on investments, \$185,000 from note proceeds and \$5,293 from other general receipts.

Disbursements for the year totaled \$435,891, and included \$169,333 for debt service, \$77,264 for capital projects and \$59,593 for public works. Also, disbursements for business type activities totaled \$38,509.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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**CITY OF MENLO**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2006**

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**City of Menlo**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2006)</b>		
Ryan Guisinger	Mayor	Jan 2006
Mark Whetstone	Mayor Pro tem	Jan 2008
Mike Culver	Council Member	Jan 2006
Larry Guisinger	Council Member	Jan 2006
Rick Guisinger	Council Member	Jan 2008
Cory Kirkpatrick	Council Member	Jan 2008
<b>(After January 2006)</b>		
Brenton Reynolds	Mayor	Jan 2008
Doug O'Brien	Mayor Pro tem	Jan 2010
Mark Whetstone	Council Member	Jan 2008
Rick Guisinger	Council Member	Jan 2008
Cory Kirkpatrick	Council Member	Jan 2008
Mike Culver	Council Member	Jan 2010
Brenda Simmons	Clerk/Treasurer	Jan 2008
Mike Maynes	Attorney	Jan 2008

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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Menlo, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Menlo's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Menlo as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 8, during the year ended June 30, 2006, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated March 19, 2007 on our consideration of the City of Menlo's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Menlo's basic financial statements. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

DAVID A. VAUDT, CPA  
Auditor of State

WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

March 19, 2007



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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The City of Menlo provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2006 FINANCIAL HIGHLIGHTS**

- The cash basis net assets of the City's governmental activities increased approximately \$18,000, due primarily to tax increment financing and local option sales tax receipts in the General Fund which were not entirely spent.
- The cash basis net assets of the City's business type activities increased approximately \$13,000 due to the retirement of the revenue bonds in the prior year.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term, as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the indebtedness of the City.

### **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information that helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the sanitary sewer system. This activity is financed primarily by user fees and related charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Park and Recreation, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

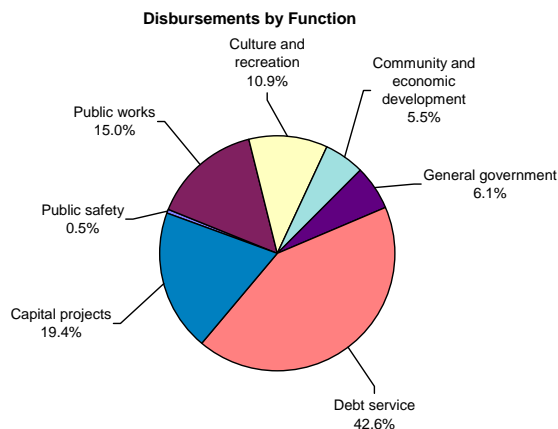
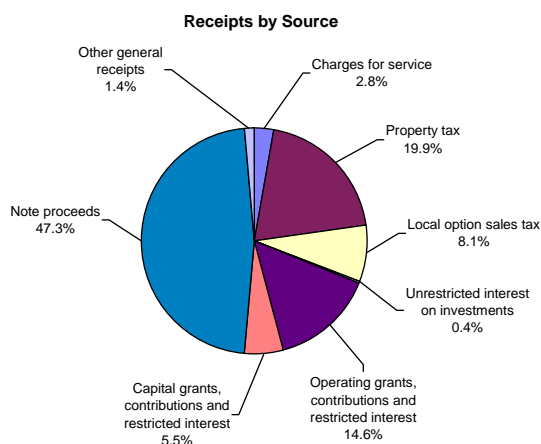
2) Proprietary funds account for the City's Enterprise Fund. Enterprise Funds are used to report business type activities. The City maintains one Enterprise Fund to provide information for sanitary sewer operations, considered to be a major fund of the City.

The required financial statement for the proprietary fund is a statement of cash receipts, disbursements, and changes in cash balance.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$196,098 to \$214,405. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		Year ended June 30, 2006
Receipts:		
Program receipts:		
Charges for service		\$ 10,881
Operating grants, contributions and restricted interest		57,091
Capital grants, contributions and restricted interest		21,299
General receipts:		
Property tax		77,676
Tax increment financing		25,127
Local option sales tax		31,683
Unrestricted interest on investments		1,639
Note proceeds		185,000
Other general receipts		5,293
Total receipts		<u>415,689</u>
Disbursements:		
Public safety		2,092
Public works		59,593
Culture and recreation		43,289
Community and economic development		21,768
General government		24,043
Debt service		169,333
Capital projects		77,264
Total disbursements		<u>397,382</u>
Increase in cash basis net assets		18,307
Cash basis net assets beginning of year		<u>196,098</u>
Cash basis net assets end of year		<u><u>\$ 214,405</u></u>



The cash basis net assets of the City's governmental funds increased from \$196,098 to \$214,405, due primarily to tax increment financing and local option sales tax receipts not entirely spent during the year.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2006
Receipts:	
Program receipts:	
Charges for service:	
Sewer	\$ 51,257
General receipts:	
Unrestricted interest on investments	587
Total receipts	<u>51,844</u>
Disbursements:	
Sewer	<u>38,509</u>
Increase in cash basis net assets	13,335
Cash basis net assets beginning of year	<u>12,321</u>
Cash basis net assets end of year	<u>\$ 25,656</u>

The business type activities balance increased from a year ago, increasing from \$12,321 to \$25,656. The increase is due to the retirement of sewer revenue bonds in the prior year.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Menlo completed the year, its governmental funds reported a combined fund balance of \$214,405, an increase of more than \$18,000 above last year's total of \$196,098. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$27,983 from the prior year to a year-end balance of \$185,312. This increase is due to tax increment financing and local option sales tax receipts increasing over the prior year which were not entirely spent.
- The Special Revenue, Road Use Tax Fund cash balance increased \$4,499 to \$23,318 during the fiscal year. This increase was attributable to road use tax allocations being greater than disbursements for the year.
- The Special Revenue, Park and Recreation Fund cash balance increased \$2,276 to \$26,317 during the fiscal year. The increase was not considered significant.
- The Debt Service Fund cash balance decreased \$9,250 to \$(17,604) during the fiscal year. The increase in the deficit balance is due primarily to property tax asking being less than the amount needed to pay all general obligation debt of the City.
- The Capital Projects Fund cash balance decreased \$3,332 from the prior year to a year-end balance of \$(1,430). The decrease was not considered significant and represents the unfunded amount for the capital project.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Sewer Fund increased its cash balance by \$13,335 to a year-end balance of \$25,656. The increase was due to the retirement of sewer revenue bonds in the prior year.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 24, 2006 and resulted in an increase in operating disbursements related to four functions of approximately \$131,000 for municipal building renovation and retiring a general obligation note. The City received local option sales tax receipts and sold general obligation notes to absorb these additional costs.

The City's receipts were \$25,619 more than budgeted. This was primarily due to the City not budgeting a USDA grant received by the City.

Even with this budget amendment, the City exceeded the budget for the general government and debt service functions for the year ended June 30, 2006. Budgeted debt service disbursements exceeded actual disbursements because the City budgeted for the \$135,000 retirement of general obligation debt in the capital projects function rather than the debt service function. The overexpenditure of the general government budget by \$1,728 was not a significant amount.

## DEBT ADMINISTRATION

At June 30, 2006, the City had \$187,450 in bonds and other long-term debt outstanding, compared to \$161,000 last year. The chart below segregates the City's debt into its component parts.

Outstanding Debt at Year-End	
	June 30, 2006
General obligation notes	\$ 165,000
Bank loan	22,450
Total	<u>\$ 187,450</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is \$187,450, less than its constitutional debt limit of approximately \$434,000.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Menlo's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates and fees charged for various City activities. The City's FY 2007 assessed value has increased \$244,537 from the FY 2006 level.

The FY 2007 budget contains total receipts of \$244,691 and disbursements of \$237,221. This budget is lower than the FY 2006 original budget which contained total receipts of \$295,186 and disbursements of \$288,860. The FY 2006 budget included approximately \$94,000 for capital projects not included in the FY 2007 budget.

The FY 2007 levy is \$21.85843 per \$1,000 of taxable valuation; an increase from \$19.75975 per \$1,000 of taxable valuation in 2006. The employee benefit levy increased from \$2.12015 per \$1,000 of taxable valuation in FY 2006 to \$3.13015 per \$1,000 of taxable valuation in FY 2007 due to increased health insurance costs and the debt service levy increased from \$6.48230 per \$1,000 of taxable valuation in FY 2006 to \$7.54493 per \$1,000 of taxable valuation in FY 2007.

These parameters were taken into account when adopting the budget for FY 2007.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brenda Simmons, City Clerk, 417 Sherman, Menlo, IA 50164.

## **Basic Financial Statements**

City of Menlo

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

		Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	Disbursements			
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 2,092	-	-	-
Public works	59,593	1,622	30,560	-
Culture and recreation	43,289	8,707	26,531	-
Community and economic development	21,768	-	-	-
General government	24,043	552	-	-
Debt service	169,333	-	-	-
Capital projects	77,264	-	-	21,299
Total governmental activities	397,382	10,881	57,091	21,299
Business type activities:				
Sewer	38,509	51,257	-	-
Total	\$ 435,891	62,138	57,091	21,299

**General Receipts:**

Property and other city tax levied for:  
    General purposes  
    Tax increment financing  
    Debt service  
Local option sales tax  
Unrestricted interest on investments  
Note proceeds  
Miscellaneous

Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted:

    Streets  
    Park and recreation  
    Urban renewal  
    Local option sales tax  
    Insurance

Unrestricted

**Total cash basis net assets**

See notes to financial statements.



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Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets

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Governmental Activities	Business Type Activities	Total
(2,092)	-	(2,092)
(27,411)	-	(27,411)
(8,051)	-	(8,051)
(21,768)	-	(21,768)
(23,491)	-	(23,491)
(169,333)	-	(169,333)
(55,965)	-	(55,965)
(308,111)	-	(308,111)
-	12,748	12,748
(308,111)	12,748	(295,363)

52,593	-	52,593
25,127	-	25,127
25,083	-	25,083
31,683	-	31,683
1,639	587	2,226
185,000	-	185,000
5,293	-	5,293
326,418	587	327,005
18,307	13,335	31,642
196,098	12,321	208,419
\$ 214,405	25,656	240,061

\$ 23,318	-	23,318
26,317	-	26,317
30,132	-	30,132
41,979	-	41,979
6,076	-	6,076
86,583	25,656	112,239
\$ 214,405	25,656	240,061

City of Menlo

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2006

		Special Revenue	
		Road	Park and
	General	Use	Recreation
		Tax	
Receipts:			
Property tax	\$ 39,067	-	-
Tax increment financing	25,127	-	-
Other city tax	36,781	-	-
Licenses and permits	552	-	-
Use of money and property	2,957	-	-
Intergovernmental	9,906	30,560	-
Charges for service	1,623	-	-
Miscellaneous	6,079	-	23,228
Total receipts	122,092	30,560	23,228
Disbursements:			
Operating:			
Public safety	2,092	-	-
Public works	26,257	26,061	-
Culture and recreation	21,879	-	20,952
Community and economic development	21,768	-	-
General government	19,480	-	-
Debt service	-	-	-
Capital projects	2,633	-	-
Total disbursements	94,109	26,061	20,952
Excess (deficiency) of receipts over (under) disbursements	27,983	4,499	2,276
Other financing sources:			
Note proceeds	-	-	-
Net change in cash balances	27,983	4,499	2,276
Cash balances beginning of year	157,329	18,819	24,041
Cash balances end of year	\$ 185,312	23,318	26,317
<b>Cash Basis Fund Balances</b>			
Unreserved:			
General fund	\$ 185,312	-	-
Special revenue funds	-	23,318	26,317
Debt service fund	-	-	-
Capital projects fund	-	-	-
Total cash basis fund balances	\$ 185,312	23,318	26,317

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor Special Revenue		Total
		Employee Benefits		
22,121	-	7,458		68,646
-	-	-		25,127
2,962	-	969		40,712
-	-	-		552
-	208	-		3,165
-	21,091	-		61,557
-	-	-		1,623
-	-	-		29,307
25,083	21,299	8,427		230,689
-	-	-		2,092
-	-	7,275		59,593
-	-	458		43,289
-	-	-		21,768
-	-	4,563		24,043
169,333	-	-		169,333
-	74,631	-		77,264
169,333	74,631	12,296		397,382
(144,250)	(53,332)	(3,869)		(166,693)
135,000	50,000	-		185,000
(9,250)	(3,332)	(3,869)		18,307
(8,354)	1,902	2,361		196,098
(17,604)	(1,430)	(1,508)		214,405
-	-	-		185,312
-	-	(1,508)		48,127
(17,604)	-	-		(17,604)
-	(1,430)	-		(1,430)
(17,604)	(1,430)	(1,508)		214,405

**City of Menlo**

## City of Menlo

Statement of Cash Receipts,  
Disbursements and Changes in Cash Balance -  
Proprietary Fund

As of and for the year ended June 30, 2006

	<u>Enterprise</u>
	<u>Sewer</u>
Operating receipts:	
Charges for service	\$ 51,107
Miscellaneous	150
Total operating receipts	<u>51,257</u>
Operating disbursements:	
Business type activities	<u>38,509</u>
Excess of operating receipts over operating disbursements	12,748
Non-operating receipts:	
Interest on investments	<u>587</u>
Excess of receipts over disbursements	13,335
Cash balance beginning of year	<u>12,321</u>
Cash balance end of year	<u>\$ 25,656</u>
<b>Cash Basis Fund Balance</b>	
Unreserved	<u>\$ 25,656</u>

See notes to financial statements.

City of Menlo

Notes to Financial Statements

June 30, 2006

**(1) Summary of Significant Accounting Policies**

The City of Menlo is a political subdivision of the State of Iowa located in Guthrie County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides sewer utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, City of Menlo has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Menlo (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational relationship with the City.

**Blended Component Unit**

The Future for Menlo Park and Recreation (Park and Recreation) is legally separate from the City but is so intertwined with the City it is, in substance, part of the City. Park and Recreation is organized under Chapter 504A of the Code of Iowa as a non-profit corporation and conducts fund raisers and collects donations which are to be used to purchase items not included in the City's budget. The financial transactions for Park and Recreation have been reported as a Special Revenue Fund of the City.

**Jointly Governed Organizations**

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Menlo Community Fire Agency, Guthrie County Assessor's Conference Board, Guthrie County Emergency Management Commission, Guthrie County Joint E911 Service Board and Adair County Sanitary Landfill and Recycling Center.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Park and Recreation Fund is used to account for fund raisers and donations received and their uses.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary fund:

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Menlo maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the general government and debt service functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.



**(3) Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation notes are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 20,000	8,662	28,662
2008	20,000	7,634	27,634
2009	20,000	6,562	26,562
2010	20,000	5,513	25,513
2011	20,000	4,462	24,462
2012 - 2014	65,000	7,097	72,097
Total	\$165,000	39,930	204,930

**(4) Dump Truck/Snow Plow Loan**

On October 18, 2004, the City authorized a \$26,000 bank loan to purchase a dump truck/snow plow. The loan requires annual payments of \$5,200 plus interest at 6% per annum and matures on October 18, 2009. The City paid \$3,550 in principal and \$1,650 in interest on the loan during the year ended June 30, 2006. The balance remaining on the loan at June 30, 2006 is \$22,450.

**(5) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2006 was \$3,109, equal to the required contribution for the year.

**(6) Local Government Risk Pool**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 531 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses

and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2006 were \$8,436.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and surety bond coverage. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(7) Corrective Transfers Required**

The City has not properly established Special Revenue Funds for Urban Renewal Tax Increment Financing and Local Option Sales Tax. The City accounted for the collections and related disbursements in the General Fund. At June 30, 2006, the unspent balances of the urban renewal tax increment financing and local option sales tax collections were \$30,132 and \$41,979, respectively. The City will make corrective transfers to establish separate Special Revenue Funds for these collections.

**(8) Accounting Change**

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2006. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Implementation of these standards had no effect on the beginning balances of the City.

**(9) Subsequent Event**

In January 2007, the City approved the repair of a backhoe at an estimated cost of \$13,500 to be paid from the General Fund.

**City of Menlo**

### **Required Supplementary Information**

City of Menlo

Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances -  
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Fund Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 68,646	-	-
Tax increment financing	25,127	-	-
Other city tax	40,712	-	-
Licenses and permits	552	-	-
Use of money and property	3,165	587	-
Intergovernmental	61,557	-	-
Charges for service	1,623	51,107	-
Miscellaneous	29,307	150	23,228
Total receipts	230,689	51,844	23,228
Disbursements:			
Public safety	2,092	-	-
Public works	59,593	-	-
Culture and recreation	43,289	-	20,952
Community and economic development	21,768	-	-
General government	24,043	-	-
Debt service	169,333	-	-
Capital projects	77,264	-	-
Business type activities	-	38,509	-
Total disbursements	397,382	38,509	20,952
Excess (deficiency) of receipts over (under) disbursements	(166,693)	13,335	2,276
Other financing sources, net	185,000	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	18,307	13,335	2,276
Balances beginning of year	196,098	12,321	24,041
Balances end of year	\$ 214,405	25,656	26,317

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
68,646	70,817	70,817	(2,171)
25,127	20,000	20,000	5,127
40,712	29,854	39,854	858
552	225	225	327
3,752	2,400	2,400	1,352
61,557	102,390	42,390	19,167
52,730	54,000	54,000	(1,270)
6,229	15,500	4,000	2,229
259,305	295,186	233,686	25,619
2,092	2,292	2,292	200
59,593	54,014	62,900	3,307
22,337	23,530	24,880	2,543
21,768	21,000	31,000	9,232
24,043	22,315	22,315	(1,728)
169,333	28,848	28,848	(140,485)
77,264	94,000	205,000	127,736
38,509	42,861	42,861	4,352
414,939	288,860	420,096	5,157
(155,634)	6,326	(186,410)	30,776
185,000	-	185,000	-
29,366	6,326	(1,410)	30,776
184,378	177,732	177,732	6,646
213,744	184,058	176,322	37,422

City of Menlo

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the blended component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Proprietary Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$131,236. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the general government and debt service functions.



### **Other Supplementary Information**

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City of Menlo  
Schedule of Indebtedness  
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Municipal building renovation	Jul 7, 2004	5.25%	\$ 150,000
Municipal building renovation	Aug 23, 2005	5.25	185,000
Total			
Bank loan:			
Dump truck/snow plow	Oct 18, 2004	6.00%	\$ 26,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
135,000	-	135,000	-	1,629
-	185,000	20,000	165,000	7,504
<u>\$ 135,000</u>	<u>185,000</u>	<u>155,000</u>	<u>165,000</u>	<u>9,133</u>
26,000	-	3,550	22,450	1,650

**Schedule 2**

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City of Menlo

Note Maturities

June 30, 2006

Year Ending June 30,	General Obligation Notes	
	Municipal Building Renovation	
	Issued Aug 23, 2005	
	Interest Rates	Amount
2007	5.25%	\$ 20,000
2008	5.25	20,000
2009	5.25	20,000
2010	5.25	20,000
2011	5.25	20,000
2012	5.25	20,000
2013	5.25	20,000
2014	5.25	25,000
Total		<u>\$ 165,000</u>

See accompanying independent auditor's report.



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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Auditor of State

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Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Menlo, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 19, 2007. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Menlo's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Menlo's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A) and (F) are material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Menlo's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Menlo and other parties to whom the City of Menlo may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Menlo during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

DAVID A. VAUDT, CPA  
Auditor of State

WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

March 19, 2007

City of Menlo

Schedule of Findings

Year ended June 30, 2006

**Findings Related to the Financial Statements:**

**REPORTABLE CONDITIONS:**

- (A) Segregation of Duties – One important element in designing internal control to safeguard assets and reasonably ensure the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another. One person has control over each of the following areas:

- (1) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Cash – handling cash, reconciling and depositing.
- (3) Investments – investing, recording and custody.
- (4) Long-term debt – recording, reconciling and performing cash functions.
- (5) Receipts – receiving, recording and custody.
- (6) Utility receipts – billing, collecting, depositing and posting.
- (7) Disbursements – purchasing, preparing checks and recording.
- (8) Payroll – preparing and distributing.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and the date of the review.

Response – We will review our controls to obtain the maximum control possible. We will have all reviews include initials and date of review.

Conclusion – Response accepted.

- (B) Dual Signatures on Checks – The City does not require dual signatures on each check issued.

Recommendation – The City should require dual signatures on all checks issued. The second signature should be an independent person who should also review supporting documentation for each check to ensure each disbursement is proper.

Response – We will have an independent person sign and review support.

Conclusion – Response accepted.

- (C) Financial Accounting and Reporting – The City Clerk submits monthly financial reports to the Council containing bank account balances, receipts, disbursements and investments. However, the monthly financial reports did not include fund balances for each of the funds or a comparison of budget to actual information.

City of Menlo

Schedule of Findings

Year ended June 30, 2006

Also, the monthly financial report did not reconcile to the bank balances and an independent review was not documented.

Recommendation – The monthly financial reports should include individual fund balances and a budget comparison to compare budgeted amounts to actual amounts for each fund.

The monthly financial report of fund balances should be reconciled to the bank balance, including all reconciling items. The bank reconciliation should be reviewed and approved by an independent person and should include the reviewer's initials and date approved.

Response – We are changing the format and will get fund balances and budget information. The report will be reconciled and reviewed.

Conclusion – Response accepted.

- (D) Capital Projects Fund – The City had a capital project for the renovation of the municipal building. This project was accounted for by the City in the General and Debt Service Funds. A USDA grant receipt of \$21,091 was not recorded in the City's financial records although it was deposited and paid out from the separate bank account established for the grant funds. The financial activities of this grant is reported in the Capital Projects Fund.

Recommendation – The City should record future capital projects in Capital Project Funds to properly account for all activity in one fund. The City should ensure all receipts are recorded in the City's financial system.

Response – We will establish a separate fund for any future projects and will make sure all transactions are recorded.

Conclusion – Response accepted.

- (E) Timesheets – The City has two regular employees who are paid salaries. Timesheets are not prepared and filed with payroll records.

Recommendation – Although the employees are paid on a salary basis, timesheets should be prepared to verify hours worked and compensated time off taken.

Response – The Clerk will keep record of compensated absences as timesheets for employees since they are salaried positions.

Conclusion – Response accepted.

- (F) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.



City of Menlo

Schedule of Findings

Year ended June 30, 2006

Response – We will reconcile billings to collections and have the Council review and an independent person initial and date. The Council does monitor delinquent accounts.

Conclusion – Response accepted.

- (G) Receipts – The City issued receipts for all collections. However, the receipts were not prenumbered by the printer.

Recommendation – Prenumbered receipts should be issued for all collections, including receipts deposited directly to the bank account.

Response – We will start using prenumbered receipts immediately.

Conclusion – Response accepted.

- (H) Electronic Data Processing Systems – During our review of internal control, the existing control activities in the City's computer-based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the City's computer-based systems were noted:

The City does not have a written policy requiring passwords to be changed periodically. In addition, the City does not have a disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over computer based systems.

Response – The policy will be put in writing and we will investigate the changing of passwords.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

City of Menlo

Schedule of Findings

Year ended June 30, 2006

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the general government and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will amend in the future in sufficient amounts.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

- (6) Council Minutes – We noted certain transactions we believe should have been approved in the Council minutes but were not. These included transactions for credit card purchases, travel expenses and petty cash reimbursements.

Although minutes of Council proceedings were published, a list of all claims allowed was not published as required by Chapter 372.13(6) of the Code of Iowa and as defined in an Attorney General’s opinion dated April 12, 1978.

Recommendation – The Council should approve all claims and the City should publish a list of claims allowed as required.

Response – We will make sure all claims are on the approved list and publish these as required.

Conclusion – Response accepted.

- (7) Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

The City’s investment policy includes references to Chapter 452 of the Code of Iowa. Also, the certificate of deposit held by the City did not receive the minimum statutory interest rate during the year ended June 30, 2006 and interest added to the certificate of deposit was not recorded in the City’s financial records.

City of Menlo

Schedule of Findings

Year ended June 30, 2006

Recommendation – The City should adopt a new investment policy which refers to Chapters 12B and 12C of the Code of Iowa. Also, the City should ensure investments receive at least the minimum rate of interest set by the State Rate Setting Committee and should record the interest added to the certificate of deposit when received.

Response – The Clerk has a revised policy ready for Council approval. We will make sure the bank gives us the statutory rates in the future and will record all interest.

Conclusion – Response accepted.

- (8) Tax Increment Financing (TIF) – In 2000, the City established an urban renewal area and plan in accordance with Chapter 403 of the Code of Iowa.

Chapter 403.19(5) of the Code of Iowa states, in part, “A municipality shall certify to the county auditor on or before December 1 the amount of loans, advances, indebtedness, or bonds which qualify for payment...”.

We reviewed the City’s tax increment debt certificates filed with the County Auditor for fiscal years 2005, 2006, 2007 and 2008. The City certified debt of \$12,000 for fiscal 2005 and debt of \$20,000 each year for fiscal years 2006, 2007 and 2008. However, the City had not incurred any TIF debt for any of these years. Since the City did not incur debt as outlined in Chapter 403.19(5) of the Code of Iowa, the City should not have certified debt on the tax increment debt certificate.

The City accounted for TIF receipts and disbursements in the General Fund and has not established a separate Special Revenue Fund as required by Chapter 403.19(2) of the Code of Iowa. Since inception, the City received \$45,746 of TIF collections and TIF disbursements totaled \$15,614 and the unspent balance of TIF collections at June 30, 2006 was \$30,132.

During the year ended June 30, 2006, the City received TIF collections of \$25,127 and disbursed \$6,614 for City Hall and other improvements.

We were unable to determine how or why the City received \$25,127 of TIF collections from the County in fiscal 2006 when only \$20,000 was certified. The City has received TIF collections in excess of the amounts certified for all periods since inception.

Recommendation – The City should only certify actual debt incurred on the tax increment debt certificate. The City should consult TIF legal counsel regarding the propriety of the City’s tax increment debt certificates, the TIF collections received by the City since inception and the remaining balance of \$30,132, including whether the City should repay the balance of \$30,132 on hand at June 30, 2006 to the County for distribution to all taxing districts.

A corrective transfer of \$30,132 should be made from the General Fund to establish a Special Revenue Fund for the unspent balance of TIF collections received by the City as of June 30, 2006.

Pursuant to Chapter 11.15 of the Code of Iowa, a copy of this report will be filed with the Guthrie County Auditor and Guthrie County Attorney for their review and determination of further action, if any.

City of Menlo

Schedule of Findings

Year ended June 30, 2006

Response – The City will contact TIF legal counsel to resolve this matter. If we are able to keep the funds, transfers will be made to the correct accounts.

Conclusion – Response accepted.

- (9) General Obligation Notes and Bank Loan – The City entered into a general obligation note agreement for the municipal building and a bank loan to purchase a dump truck/snow plow. The note and loan were not properly established in accordance with Chapter 384.24A(3) of the Code of Iowa since the City did not publish notices and hold public hearings prior to entering into the agreements. Also, the proceeds of the general obligation note were not recorded in a Capital Projects Fund.

Recommendation – The City should comply with the Code of Iowa prior to entering into debt issues. The general obligation note proceeds should have been recorded in a Capital Projects Fund.

Response – We will comply with the Code of Iowa regarding any future debt issuances and will make sure the proceeds are recorded properly.

Conclusion – Response accepted.

- (10) Financial Condition – The Debt Service Fund, the Capital Projects Fund and the Special Revenue, Employee Benefits Fund had deficit balances of \$17,604, \$1,430 and \$1,508, respectively, at June 30, 2006.

Recommendation – The City should evaluate the reasons for the deficits and investigate alternatives to eliminate the deficits in order to return the funds to a sound financial position.

Response – We will investigate these deficits in order to return these funds to a sound financial position.

Conclusion – Response accepted.

- (11) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – We will comply. The bank has been contacted and we will begin receiving these next month.

Conclusion – Response accepted.

City of Menlo

Schedule of Findings

Year ended June 30, 2006

- (12) Local Option Sales Tax – The City established, through referendum, a local sales and services tax effective January 1, 2004 to be allocated for community betterment. The City accounts for the receipts and disbursements in the General Fund rather than in a Special Revenue Fund. The unspent balance of local option sales tax collections at June 30, 2006 was \$41,979.

Recommendation – The City should make a corrective transfer as of June 30, 2006 to establish a Special Revenue Fund for local option sales tax receipts, disbursements and balances and to demonstrate compliance with the City's referendum for use of the tax.

Response – The transfers will be made and accounts will be set up.

Conclusion – Response accepted.

- (13) Insurance Levy – The City levies a tax to pay premium costs on tort liability and property insurance in accordance with Chapter 384.12(18) of the Code of Iowa. The City does not account for the insurance tax receipts and related disbursements in a separate fund. For the year ended June 30, 2006, the City received \$6,076 more in taxes for insurance than was disbursed.

Recommendation – The City should establish a separate account within the General Fund to account for insurance tax levy receipts, disbursements and balances. The City should review and determine the unspent balance from the levy and consider the balance when determining future tax askings.

Response – The City will review the balance and consider when determining future tax askings.

Conclusion – Response accepted.

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City of Menlo

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager  
Paul F. Kearney, CGFM, Senior Auditor  
Michael P. Piehl, Staff Auditor

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